

Report on Bachelor / Master Thesis

Institute of Economic Studies, Faculty of Social Sciences, Charles University in Prague

Student:	Osaid Hashmi
Advisor:	Evžen Kočenda
Title of the thesis:	Conventional vs. Shariah stock indices: Volatility, Financial Contagion, Interest Rate Risk and Gold as Safe Haven

OVERALL ASSESSMENT (provided in English, Czech, or Slovak):

Please provide your assessment of each of the following four categories, summary and suggested questions for the discussion. The minimum length of the report is 300 words.

The thesis analyzes and compares volatility and correlation between conventional stock indices and their Shariah counterparts over a period 2008 - 2017.

Contribution

The thesis brings forth analysis of volatility and correlations between conventional stock indices and their Shariah counterparts during Global Financial Crisis and afterwards (2008 – 2017). It is found that the conventional indices were mostly volatile during the crisis periods and Shariah stocks were attractive alternative for risk-averse investors. However, the findings vary according to the market conditions: Shariah stocks in emerging markets did not perform well during the crisis. Further, it is shown that Shariah indices are correlated with interest rates (in a similar way as conventional indices are), which means that they are exposed to interest rate risk. It is also found that gold exhibits low correlation with Shariah indices, which implies risk diversification opportunity.

Methods

The S&P Conventional and Shariah indices in various markets are analyzed during and after the Global Financial Crisis (GFC) during the period January 1, 2008 to March 10, 2017. The volatility analysis is performed on daily closing prices of the indices, for the overall period and sub-periods reflecting specific crisis-related periods. GARCH and DCC-GARCH models are employed to model volatility and correlations, respectively. Fat-tail distributions are captured via the non-normal distributions (GED & MVT). Exponential GARCH (EGARCH) is employed to account for the leverage effects. Overall, the methodology approach uses established techniques, it is well motivated and executed.

Literature

The literature section summarizes the current state of research in the field. Further, the review also introduces the key facts relevant for the Shariah-compliant stocks, and finances in general. The literature section also brings very detailed review of the empirical papers related to specific aspects (volatility, correlations) analyzed in the thesis. Hence, the literature is reviewed in a detail and covers all relevant papers and angles.

Manuscript form

The manuscript conforms to formal requirements for the master thesis. It reads well and contains only some minor typos. Introduction is clear and motivates well the researched topic, plus it nicely sets the stage for the subject analysis within the concept of Islamic finance. Data are fully described. Hypotheses are clearly stated. Tables and figures are presented in an organized and legible manner; their extent is quite large.

Summary and suggested questions for the discussion during the defense

The thesis represents a solid piece of work on the subject that has been previously studied but was not sufficiently covered for the GFC and later periods, plus it brings several new angles in terms of analyzing connection to interest rates and gold.

In case of the successful defense, I recommend the grade A.

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SUMMARY OF POINTS AWARDED (for details, see below):

CATEGORY	POINTS
Contribution (max. 30 points)	27
Methods (max. 30 points)	26
Literature (max. 20 points)	20
Manuscript Form (max. 20 points)	19
TOTAL POINTS (max. 100 points)	92
GRADE (A – B – C – D – E – F)	A

NAME OF THE REFEREE: Evžen Kočenda

DATE OF EVALUATION: June 6, 2018



Referee Signature

EXPLANATION OF CATEGORIES AND SCALE:

CONTRIBUTION: *The author presents original ideas on the topic demonstrating critical thinking and ability to draw conclusions based on the knowledge of relevant theory and empirics. There is a distinct value added of the thesis.*

Strong	Average	Weak
30	15	0

METHODS: *The tools used are relevant to the research question being investigated, and adequate to the author's level of studies. The thesis topic is comprehensively analyzed.*

Strong	Average	Weak
30	15	0

LITERATURE REVIEW: *The thesis demonstrates author's full understanding and command of recent literature. The author quotes relevant literature in a proper way.*

Strong	Average	Weak
20	10	0

MANUSCRIPT FORM: *The thesis is well structured. The student uses appropriate language and style, including academic format for graphs and tables. The text effectively refers to graphs and tables and disposes with a complete bibliography.*

Strong	Average	Weak
20	10	0

Overall grading:

TOTAL	GRADE
91 – 100	A
81 - 90	B
71 - 80	C
61 – 70	D
51 – 60	E
0 – 50	F